



December 23, 2004

TO: Officials-in-Charge of Headquarters Offices
Directors, NASA Centers
Director, Jet Propulsion Laboratory

FROM: Deputy Administrator

SUBJECT: Implementation of Cost Management Initiatives

The National Aeronautics Space Administration's (NASA) ability to better estimate costs for our programs and projects and manage within those cost estimates is critical for building our credibility and maintaining support for our efforts to implement the *President's Vision for U.S. Space Exploration*. A section of the May 2004 report from the General Accountability Office (GAO), "*Lack of Disciplined Cost-Estimating Process Hinders Effective Program Management*," called into question NASA's ability to accurately estimate and manage our project costs along with the cost of meeting our performance commitments.

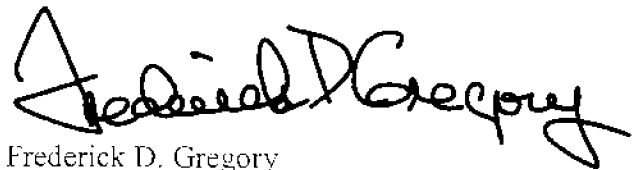
Over the last 2 years, NASA has developed several initiatives to improve cost estimating and management within the Agency. The Agency's Program Management Committee has reviewed these initiatives and approved them on July 7, 2004. The Office of Management and Budget (OMB) also endorsed these initiatives, and their implementation has been incorporated into our Budget and Performance Integration (BPI) plans. Implementation of these initiatives is critical if NASA is to maintain "green" status in Budget and Performance Integration as part of the President's Management Agenda. Additionally, NASA concurred with the GAO report's first recommendation to "develop an integrated plan" for strengthening cost estimating and project cost management, and stated that NASA Procedural Requirement (NPR) 7120.5C (NASA Program and Project Management Processes and Requirements) would incorporate that plan, effective in early fiscal year 2005. We understand that we must meet the cost management expectations of the United States taxpayer, as represented by the recommendations of GAO and OMB.

I am hereby directing that all cost estimating and related management initiatives contained within the soon to be released draft 7120.5C be implemented throughout the Agency immediately. A copy of these initiatives can be found at www.ceph.nasa.gov. This implementation of cost initiatives shall precede the NPR 7120.5C signature authority.

The draft NPR 7120.5C requires cost estimating and project cost management be implemented within the context of Continuous Cost-Risk Management (CCRM) that focuses on management of risky Work Breakdown Structure (WBS) elements most likely to cause adverse cost and schedule impacts. CCRM encompasses the following: detailed project definitions (including technical parameters) and probabilistic, risk-based Life Cycle Cost Estimates documented in a Cost Analysis Data Requirement (CADRe); disciplined cost and schedule rebaselining; Earned Value Management for continuous management and reporting of risky WBS elements; periodic updates of the CADRe for continual reassessment of project cost performance; and end-of-project data collection and storage in the One NASA Cost Engineering database for cost analysis improvement.

For further guidance and direction please contact Joc Hamaker, Director, Cost Analysis Division at (202) 358-2495 or by email joc.hamaker@nasa.gov.

Cordially,

A handwritten signature in black ink, appearing to read "Frederick D. Gregory". The signature is stylized with a large, looped initial "F" and a long, sweeping underline.

Frederick D. Gregory